

EXECUTIVE SUMMARY

Master Lease Agreement to Fund Vehicles and Equipment

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: January 7, 2011

IBA Report Number: 11-01

City Council Docket Date: January 11, 2011

Item Number: 59

The City Council is being asked to approve an ordinance authorizing the form and execution of a Master Lease Agreement with Chase Equipment Finance, Inc. The ordinance specifies that the total acquisition cost of the vehicles and equipment financed under the Master Lease Agreement shall not exceed \$22.2 million. Although this item has been docketed on the consent agenda and previously recommended for approval by the Budget and Finance Committee last December, the IBA has issued this report to provide additional information related to the requested action.

Given competitive financing rates and the desire to stretch limited General Fund resources to cost effectively maintain the City's fleet of motive equipment, the IBA believes it is a reasonable budgetary practice to lease purchase finance a portion of annual equipment needs. In their Debt Issuance Guide, the Government Finance Officers Association acknowledges the appropriateness of financing assets with longer useful lives in conjunction with cash financing. It is important to note that term of the financing does not exceed the expected useful life of the motive equipment identified for financing.

In June of 2009, the City Council decided not to approve lease purchase financing for Fiscal Year 2010 because new types of equipment were prematurely included in the financing request. As a result the Fleet Division was only able to cash fund motive equipment scheduled for replacement in Fiscal Year 2010. It should also be noted that one of the budget adjustments for Fiscal Year 2010 and Fiscal Year 2011 was to increase the useful life cycle on all motive equipment by two years. This change is expected to save the City approximately \$10 million over the two years. At the time of the proposed change, staff indicated the impact to service levels would include "an overall aged fleet and potentially increased repair and maintenance costs".

There may be future proposals to defer the replacement or extend the expected useful life of motive equipment in an effort to realize budget savings. If so, improved equipment technology (i.e., Global Positioning Systems) and better maintenance practices may be able to partially offset some of the additional maintenance/repair expense. It also may be possible to increase the use of lease purchase financing to reduce annual General Fund expense. The IBA recommends any new proposals to further defer replacement or stretch the expected useful life of motive equipment be carefully evaluated against potentially greater maintenance and repair costs in the long run.